



Economic Report

May 2021

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Global Economy 03

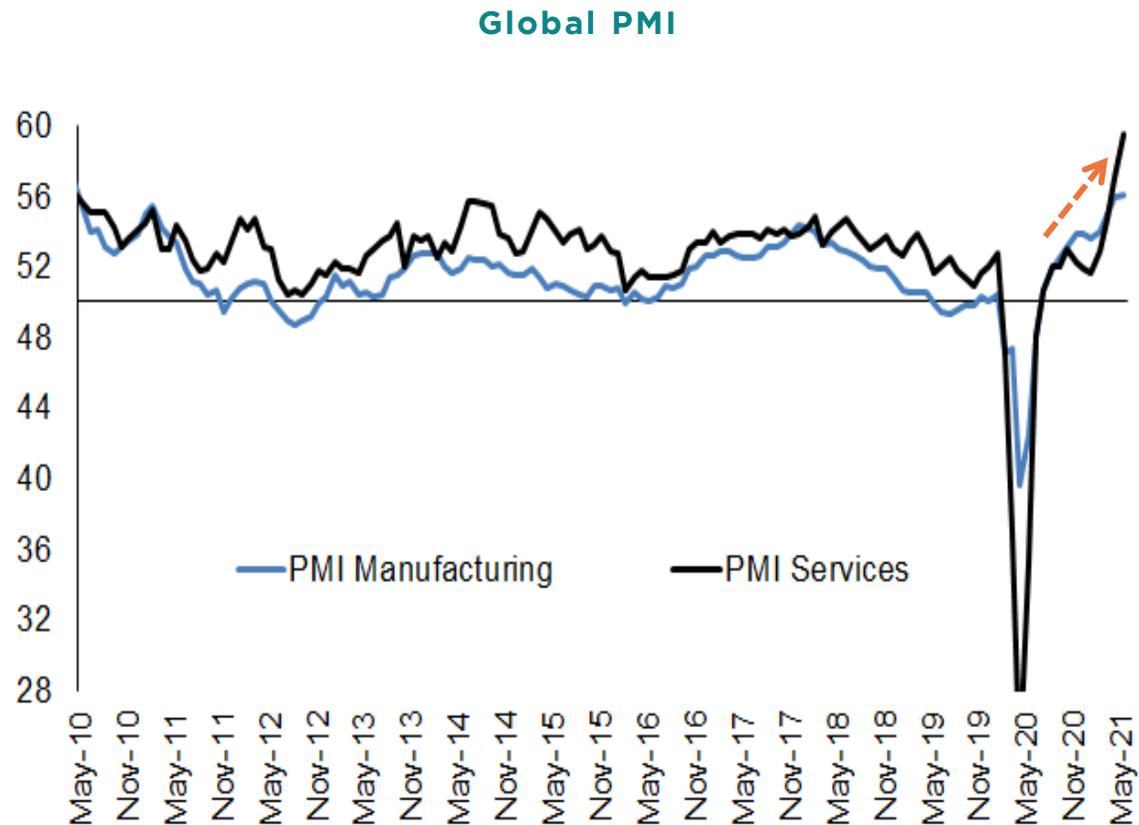
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Global: Global economy continues to pick up

Global Economy



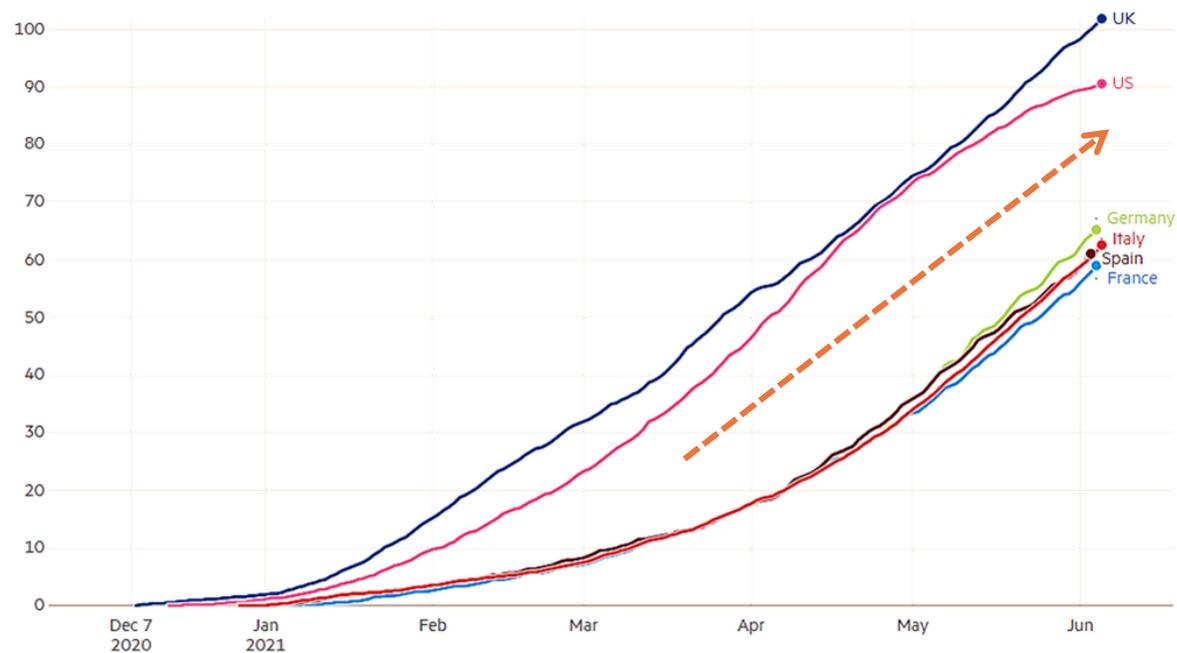
The global economy continues to accelerate, specially in regions where the vaccination rate is advanced, leading the recovery.

It is worth highlighting the ongoing strong pace of industrial activity (blue line in the accompanying chart) which has been facing sporadic problems in supply chains, amid a boom in demand due to the change in the pattern of consumption during the pandemic (more goods, less services). Meanwhile, services (black line in the accompanying chart) have started to speed up more abruptly.

Europe: Vaccination gaining traction

Global Economy

Vaccination in Europe
Doses received per 100 inhabitants (cumulative)

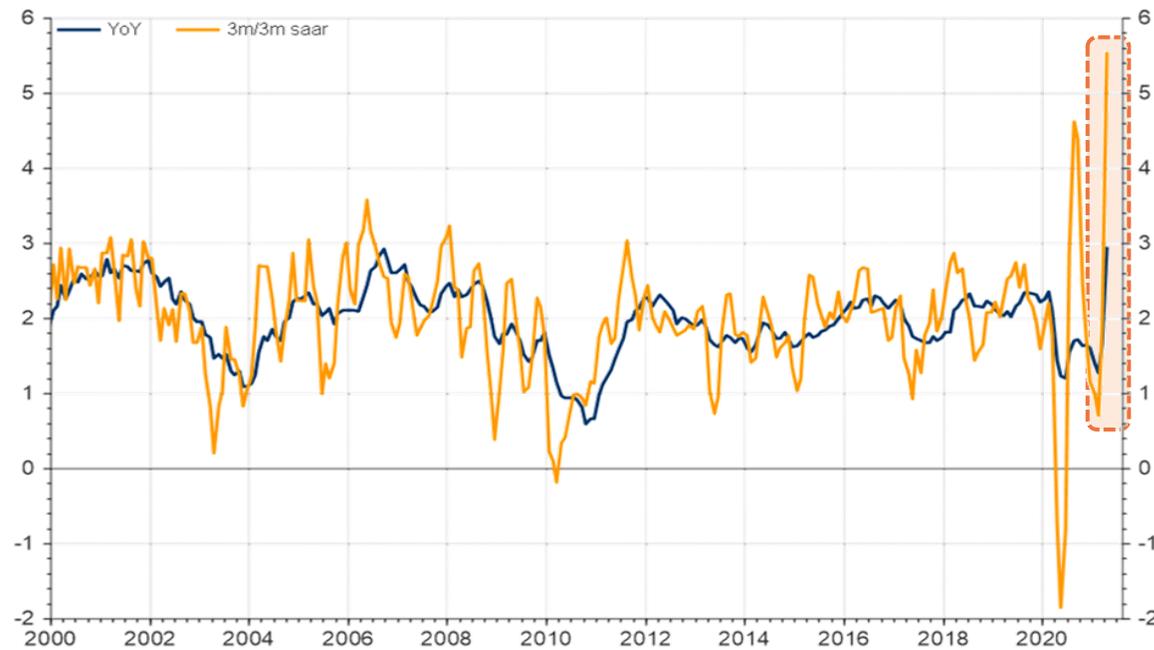


Covid-19 vaccination in Europe has gained traction in recent weeks (excluding the UK - dark blue line in the accompanying chart) and is generating greater optimism over the recovery of the economy for the upcoming months, particularly with the European summer upon us. This greater optimism is already being seen in some qualitative indicators in the services sector.

US: Inflation takes off with reopening

Global Economy

Core CPI (Consumer Price Index)
YoY vs. 3m/3m saar

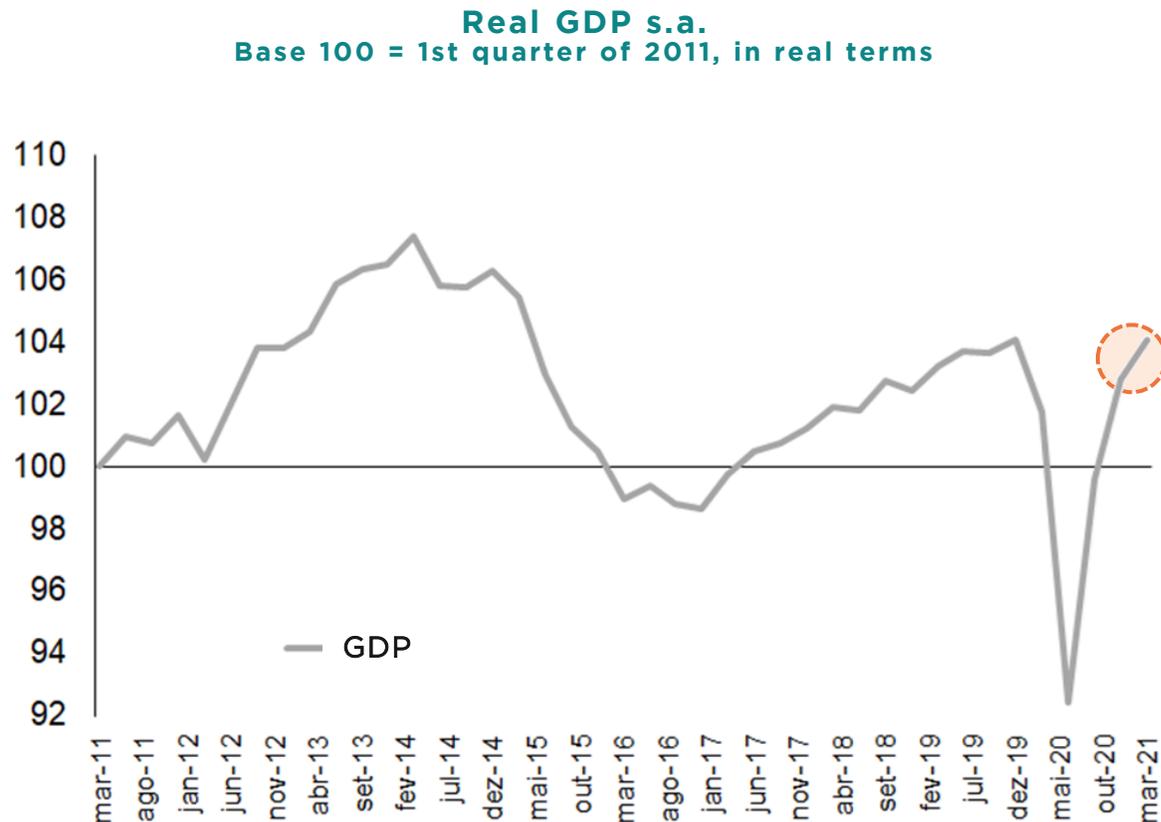


Inflation data for April and May were surprisingly much higher than estimates, as seen in the Core CPI index in the accompanying chart. The higher results were mainly due to the reopening process, with items such as airfares and housing being the highlights, as well as automobiles and trucks, a mixture of supply chain problems and strong demand due to fiscal stimulus.

Nevertheless, the bullish signs so far are still concentrated on more one-off items and the main question is how temporary these shocks will be as this has very important implications for US monetary policy.

Activity: Stronger GDP in the 1st quarter revisits forecasts for 2021

Brazilian Economy

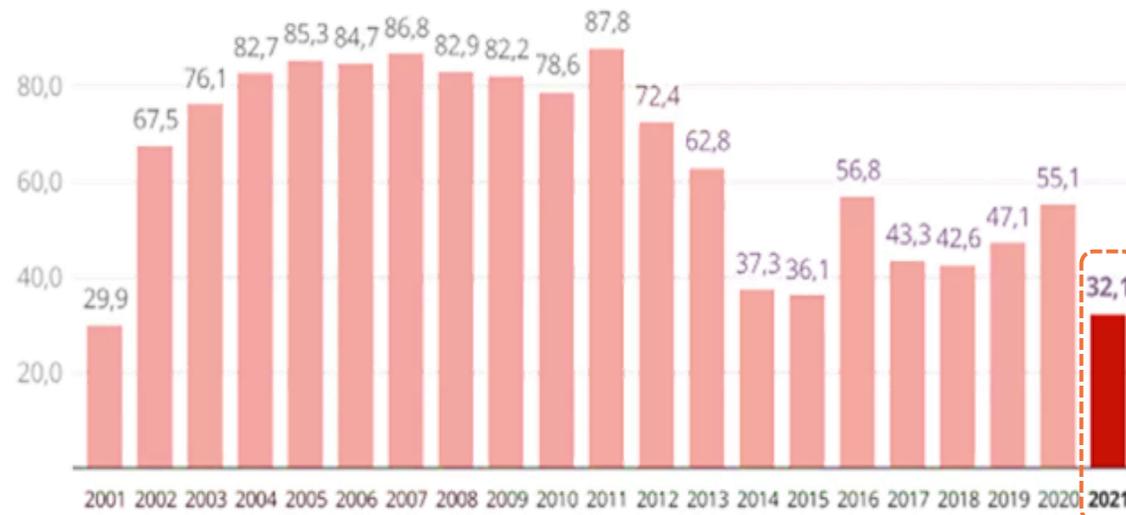


GDP growth in the 1st quarter of 2021 came as a positive surprise, rising above expectations by 1.2% QoQ (quarter-over-quarter). This took activity back to its pre-pandemic level. Moreover, the signs of resilience in March and April, even with restrictions on mobility in place, led to a round of sharp upward revisions in growth projections for 2021, which are already around 5.5%.

Inflation: Water crisis could lead to (even) pricier energy

Brazilian Economy

Reservoirs' levels in the Southeast and Midwest
At the end of May, % of the total



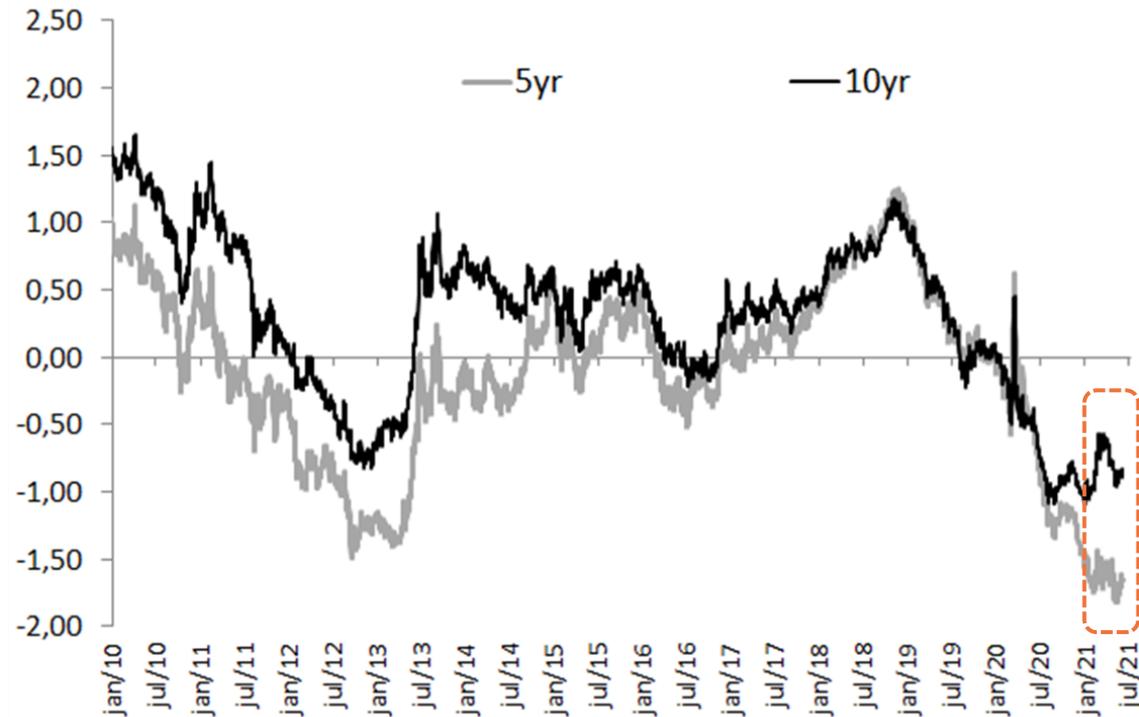
Low rainfall levels and strong demands has raised alarm over the risk of problems with electricity supplies in the country. Dams' levels in the Southeast and Midwest in May, for example, were at the lowest level for the month since 2001, as shown in the accompanying graph.

Although the consensus view is that the risk of a blackout is still low, due to the greater diversity of today's power matrix (compared with 2001), these concerns translate into higher energy prices.

Interest rates: Negative real interest rate environment remains

Markets

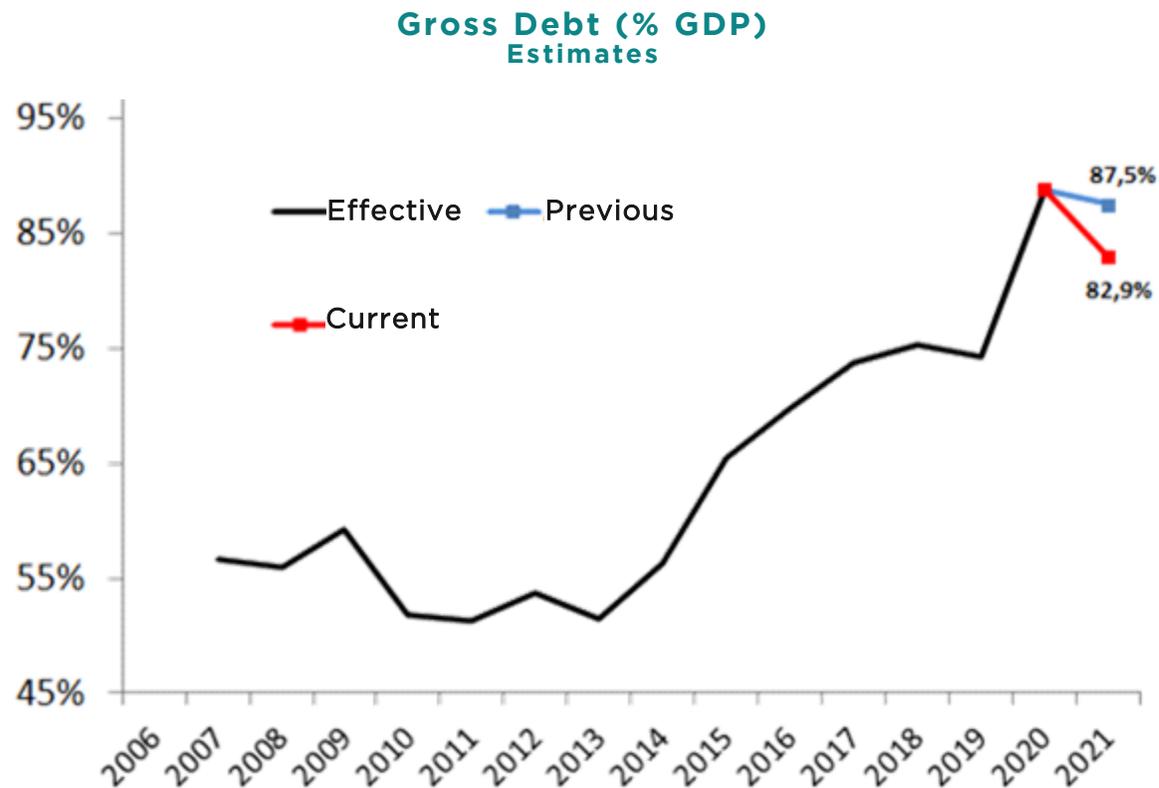
US: Real Interest Rate



The maintenance of low real interest rates in the US curve, as shown in the accompanying chart, continues to be an important support for risk assets. What draws attention is the fact that this stability has occurred even with strong positive surprises from inflation and ongoing solid activity data. We believe this partly reflects the technical positioning of the market, which carried many positions betting on rising interest rates, with some of these positions being ended.

Fiscal: Estimates for debt by end of 2021 revised downwards

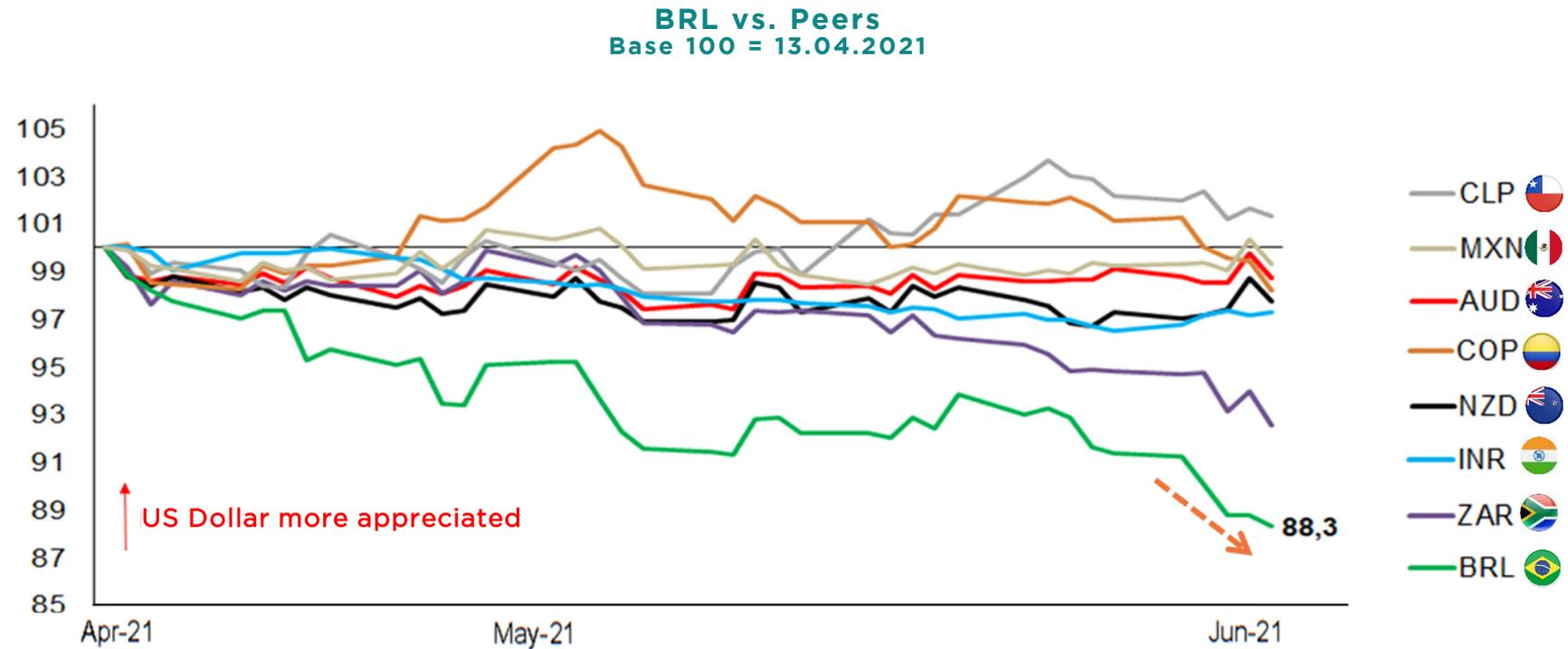
Markets



A side effect of the upward revision in Brazil's growth and inflation projections for 2021 has been a lower estimate for the year-end gross debt/GDP ratio. This means that, although the country's structural challenges in fiscal terms have not changed, the lower starting point of the debt points to a less unfavorable outlook in the coming years. This led to a reduction in risk premiums of Brazilian assets.

Exchange rate: Fiscal situation also impacted BRL performance

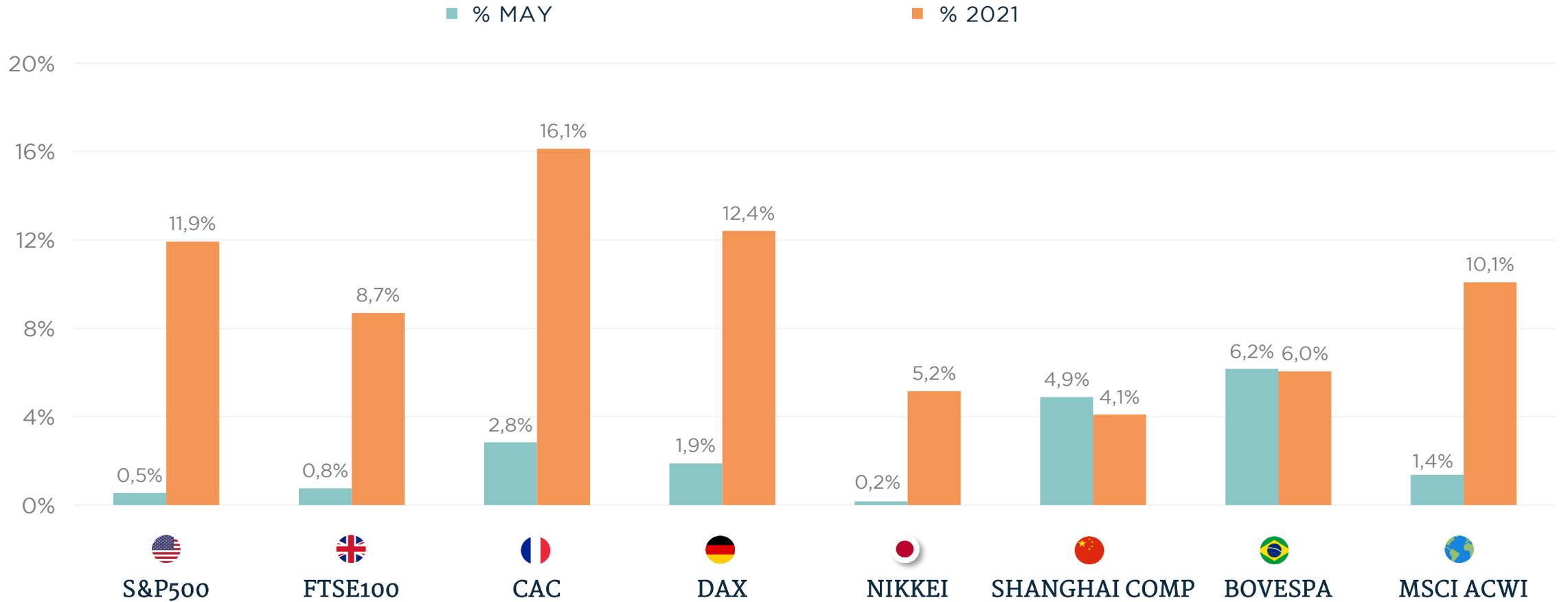
Markets



This reduction in Brazil's fiscal risk premium was seen most clearly in exchange rates which showed a much stronger appreciation of the Real (BRL in the above chart) than its peers during this latest window. It is worth mentioning that the Central Bank's process of hiking interest rates and the sharp rise in commodity prices are also highly important supports.

Stock markets

Markets



Indexes

| | % May | Value on 31.05.2021 | % 2021 | % 12 Months |
|---------------------------------------------|-------|---------------------|--------|-------------|
| Commodities | | | | |
| OIL WTI | 4,3% | 66,32 | 36,7% | 86,9% |
| GOLD | 7,8% | 1.906,87 | 0,4% | 10,2% |
| Currencies (in relation to the US\$) | | | | |
| EURO | 1,7% | 1,22 | 0,1% | 10,1% |
| GBP | 2,8% | 1,42 | 4,0% | 15,1% |
| YEN | -0,2% | 109,58 | -5,8% | -1,6% |
| REAL | 4,2% | 5,22 | -0,4% | 2,3% |
| Indexes | | | | |
| S&P500 | 0,5% | 4.204,11 | 11,9% | 38,1% |
| FTSE100 | 0,8% | 7.022,61 | 8,7% | 15,6% |
| CAC | 2,8% | 6.447,17 | 16,1% | 37,3% |
| DAX | 1,9% | 15.421,13 | 12,4% | 33,1% |
| NIKKEI | 0,2% | 28.860,08 | 5,2% | 31,9% |
| SHANGHAI COMP | 4,9% | 3.615,48 | 4,1% | 26,8% |
| BOVESPA | 6,2% | 126.215,70 | 6,0% | 44,4% |
| MSCI ACWI | 1,4% | 711,45 | 10,1% | 39,6% |



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